

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 3226 - HB 3425

February 28, 2012

**SUMMARY OF BILL:** Requires the meaning of “income,” as it relates to the Hall Income Tax standard exemption for taxpayers age 65 and older, to have the same meaning as “adjusted gross income” used for federal income tax purposes.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$4,277,300**

**Decrease Local Revenue – Net Impact - \$2,609,300**

**Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.**

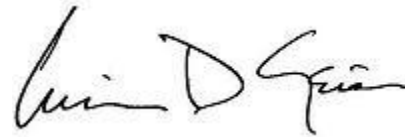
Assumptions:

- The effective date for this bill is July 1, 2012. For the purpose of estimation, it is assumed this bill will apply to tax year 2012 and all subsequent tax years.
- One hundred percent of Hall Income Tax returns for tax year 2012 will be settled no later than June 30, 2013, (or by the end of FY12-13). Therefore, the first year impacted will be FY12-13. This pattern of settlement will remain constant into perpetuity.
- According to the Department of Revenue, and based on information obtained from federal forms 1099-DIV and the Tax Year 2009 Information Returns Master File, the recurring decrease in Hall Income Tax revenue as a result of this bill would be approximately \$7,230,000. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its accuracy.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), 62.5 percent of Hall Income Tax revenue is deposited to the General Fund; the remaining 37.5 percent is apportioned to local governments.
- The recurring decrease in Hall Income Tax revenue for the state is estimated to be \$4,518,750 (\$7,230,000 x 62.5%).

- The recurring decrease in Hall Income Tax revenue for local governments is estimated to be \$2,711,250 ( $\$7,230,000 \times 37.5\%$ ).
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be \$253,050 ( $\$7,230,000 \times 50.0\% \times 7.0\%$ ); the recurring increase in local option sales tax revenue is estimated to be \$90,375 ( $\$7,230,000 \times 50.0\% \times 2.5\%$ ).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be \$11,621 ( $\$253,050 \times 4.5925\%$ ).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$241,429 ( $\$253,050 - \$11,621$ ).
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$101,996 ( $\$90,375 + \$11,621$ ).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$4,277,321 ( $\$4,518,750 - \$241,429$ ).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$2,609,254 ( $\$2,711,250 - \$101,996$ ).
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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